

TO OUR SHAREHOLDERS:

We are pleased to provide the following interim report for the six months ended June 30, 1974. Sales for the first half of 1974 exceeded the record achieved for the same period last year and amounted to \$52,998,000 compared to \$48,219,000, an increase of 9.9 percent.

Net income continued to fall below last year and for the first six months was \$755,000 as compared to \$1,742,000 for the same period in 1973. This represents earnings per share of 24 cents as compared to 57 cents. These amounts, as well as other figures reported in the statement, are taken from the consolidated unaudited financial statements of the corporation.

In our report to shareholders for the first quarter, we listed a number of factors which were having an unfavourable influence on our operations and they are continuing to affect the second quarter. They include overall inflationary trends, rapidly increasing material costs, competition from foreign sources, the impact of the DISC program in the U.S.A., an industry slowdown in color television sales and much higher interest costs.

It is gratifying to note that a wide range of product lines showed considerable growth, with the Deilcraft Furniture Division being the most outstanding example. A substantial increase in sales was recorded with a commensurate increase in profits. Our continuing confidence in this market area led to the acquisition of a modern furniture manufacturing facility in Stellarton, Nova Scotia. This plant, in keeping with our program for facility specialization, will concentrate on bedroom suite designs.

The demand for sub-fractional horsepower motors remains strong as does revenue from our broadcasting facility, Central Ontario Television Limited. Most of the remaining marketing areas registered more modest increases.

OUTLOOK

We expect the inflationary pressures and high interest rates will continue as will the effect of foreign competition. However, we look for an improvement in the economic climate over the long term which, coupled with the more buoyant fall selling season, should offset many of the adverse trends we have faced. The outlook for the balance of the year is relatively favourable. The demand for our home furnishings products remains strong and our 1974-75 home entertainment product range introduced recently, including several new color television designs, has been well received by our dealer network. Commercial electronic products, comfort appliances and motors should increase on their 1973 sales performance and revenues from Central Ontario Television Limited should also continue to advance in the latter half.

New facilities under development in Stellarton, Nova Scotia, to produce bedroom furniture, and in Malaysia, which will build electronic sub-assemblies, are proceeding according to plan with deliveries from these plants beginning in the latter part of 1974. These and other equipment and facility changes will significantly add to our operating performance in 1975.

August 27, 1974

D.S. Sykes
Chairman of the Board

AR79



an interim report
to shareholders

June 30, 1974

ELECTROHOME Limited and Subsidiaries

CONSOLIDATED BALANCE SHEET as at June 30, 1974

	1974 (in thousands)	1973
ASSETS		
CURRENT ASSETS		
Cash	\$ 367	\$ 376
Accounts Receivable (note 1)	22,951	17,893
Inventories	33,652	28,941
Prepaid expenses	1,276	999
Income taxes recoverable	448	99
	<u>58,694</u>	<u>48,308</u>
FIXED ASSETS		
Land, buildings, machinery and equipment, at cost	28,251	23,858
Less: Accumulated depreciation	11,275	9,648
	<u>16,976</u>	<u>14,210</u>
INTANGIBLE ASSETS		
Excess of cost over Book Value at date of acquiring shares of subsidiaries, less amortization	2,421	2,487
Goodwill, at cost less amortization	145	—
	<u>2,566</u>	<u>2,487</u>
TOTAL ASSETS	<u>\$78,236</u>	<u>\$65,005</u>
	1974 (in thousands)	1973
LIABILITIES		
CURRENT LIABILITIES		
Bank advances secured	\$30,823	\$23,544
Accounts payable and accrued liabilities	10,630	9,060
Sales taxes payable	1,083	701
Deferred service contract income	728	609
Principal instalments due within one year on long-term debt	645	641
	<u>43,909</u>	<u>34,555</u>
LONG-TERM DEBT	<u>9,733</u>	<u>8,131</u>
DEFERRED INCOME TAXES	<u>1,514</u>	<u>982</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
15,831 5¼% Preference Shares (16,256-1973)	1,583	1,625
2,985,150 Common Shares (2,984,350-1973) (note 3)	3,795	3,785
	<u>5,378</u>	<u>5,410</u>
RETAINED EARNINGS	<u>17,702</u>	<u>15,927</u>
	<u>23,080</u>	<u>21,337</u>
TOTAL LIABILITIES AND EQUITY	<u>\$78,236</u>	<u>\$65,005</u>

Approved by the Board
D.S. Sykes, Director
J.A. Pollock, Director

CONSOLIDATED STATEMENT OF INCOME for six months ended June 30, 1974

	1974 (in thousands)	1973
SALES	\$52,998	\$48,219
Cost of sales, selling, administrative and financial expenses	50,228	43,984
Income before undernoted items	2,770	4,235
Depreciation	928	719
Amortization of intangible assets	41	33
Interest on long-term debt	329	347
	<u>1,298</u>	<u>1,099</u>
Income before taxes	1,472	3,136
Taxes on income	717	1,394
NET INCOME	<u>\$ 755</u>	<u>\$ 1,742</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS for the six months ended June 30, 1974

	1974 (in thousands)	1973
Balance at beginning of period	\$17,211	\$14,452
Add: Net income for six months	755	1,742
Discount on redemption of preference shares	6	4
	<u>17,972</u>	<u>16,198</u>
Deduct: Dividends paid - preference shares	46	47
- common shares	224	224
BALANCE AT END OF PERIOD	<u>\$17,702</u>	<u>\$15,927</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS for six months ended June 30, 1974

	1974 (in thousands)	1973
SOURCE OF FUNDS		
Operations		
Net income for six months	\$ 755	\$ 1,742
Depreciation	928	719
Amortization of intangible assets	41	33
Deferred income tax increase	100	100
	<u>1,824</u>	<u>2,594</u>
Increase in long-term debt:		
- mortgages assumed (note 1)	2,250	161
Sale of fixed assets	26	34
Discount on redemption of preference shares	6	4
Proceeds from issue of common shares	—	19
	<u>32</u>	<u>57</u>
	<u>\$ 4,106</u>	<u>\$ 2,812</u>
APPLICATION OF FUNDS		
Additions to fixed assets (note 1)	2,470	2,380
Reductions of long-term debt	24	23
Dividends paid - preference shares	46	47
- common shares	224	224
Preference shares purchased for cancellation	28	26
	<u>2,792</u>	<u>2,700</u>
INCREASE IN WORKING CAPITAL	<u>1,314</u>	<u>112</u>
WORKING CAPITAL AT BEGINNING OF PERIOD	<u>13,471</u>	<u>13,641</u>
WORKING CAPITAL AT JUNE 30	<u>\$14,785</u>	<u>\$13,753</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS June 30, 1974

1. ELECTROHOME Limited has purchased additional furniture manufacturing facilities in Stellarton, Nova Scotia financed out of the proceeds of a purchase money mortgage, and a federal government DREE grant. 80% of the DREE grant, which is payable following the date of commencement of commercial production, has been recorded as a receivable at June 30, 1974 and applied against the fixed assets acquired.
2. Certain amounts in the 1973 accounts receivable and accounts payable have been reclassified on the basis of the 1974 financial statement presentation.
3. At the Annual and General Meeting held April 24, 1974, the Shareholders of ELECTROHOME Limited confirmed the Special Resolution passed by the Directors of the Corporation on February 21, 1974 providing for the reclassification of all of the outstanding

Common shares and all but 2,000 of the unissued Common shares as Class A shares and, for the reclassification of 1,000 of the 2,000 unissued Common shares as Class B shares, and leaving the remaining 1,000 unissued Common shares as Common shares.

Revised "Common" Share Capital:

Authorized		Issued	
1973	1974	1974	1973
	3,149,995	1,137,145	
	1,849,005	1,848,005	
5,000,000	1,000	—	2,984,350
5,000,000	5,000,000	2,985,150	2,984,350